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Institutions Are Flocking To Build Single-Family Rentals

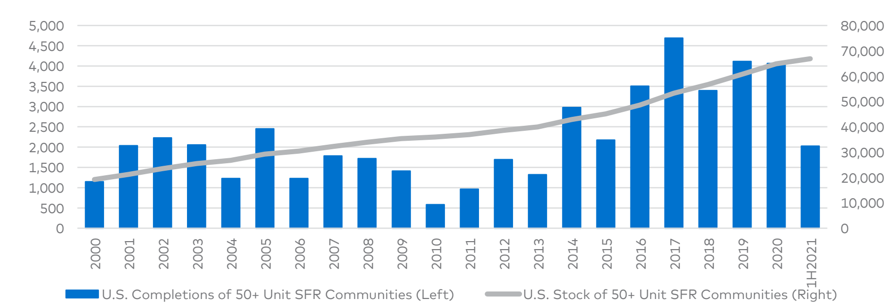
The institutionally owned single-family rental market, formed in the ashes of the 2000s housing bubble, has been rejuvenated by COVID-19. The revival comes with a new twist: the build-to-rent segment, in which homebuilders develop single-family homes to rent.

Both the institutional single-family rental and build-to-suit segments gained momentum as a result of the pandemic, which created ideal conditions. Families wanted more space and the privacy of a detached home, but without the inherent limitations of a mortgage and homeownership.

Single-family rentals have long been a major subsection of the housing market, representing about one-third of the 46 million rental homes in the U.S. However, nearly 98% of single-family rentals are operated by mom-and-pop owners. Institutions did not enter the segment until after the Global Financial Crisis in 2008 and remain a small slice of the market.

That is changing, though. The potential for growth has prompted many institutional players to jump into the niche, with more than $10 billion allocated to the sector by institutions over the last few years, according to corporate announcements and news reports.

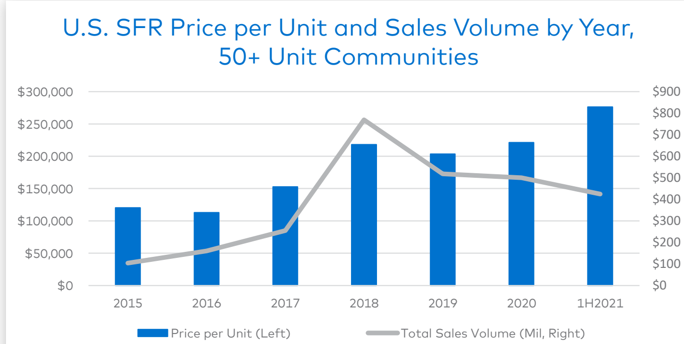
National Stock and Completions, SFR 50+ Unit Communities



Source: Yardi Matrix

Increasingly, the way institutions are growing their presence is to build their own communities. Some 12% of new single-family construction in 2021 is being done for rentals, according to John Burns Real Estate Consulting. With so much capital looking to invest in the sector and the demand for rentals rising, we would expect build-to-rents to increase rapidly for at least the next several years.

Market Born in GFC; COVID-19 Second Wave



Source: Yardi Matrix

Although single-family rentals have long been a major component of the U.S. housing industry, there was virtually no institutional capital in the segment until the wake of the Global Financial Crisis that started in 2008 after lenders doled out overleveraged subprime loans and sold them to investors in mortgage-backed securities (MBS). As loans defaulted, banks accumulated tens of thousands of foreclosed mortgages. Taking a cue from the strategies used for foreclosed commercial mortgages during the savings & loan crisis in the late 1980s and early 1990s, institutions seized the opportunity to buy the loans in bulk at steep discounts.

Institutional purchases of single-family homes reached 100,000 in 2012 and peaked at 180,000 in 2013. Even at that peak, the institutional market barely topped 5% of the 3.5 million residential home purchases that year, with concentrations in the Southwest and Southeast. The biggest buyers in the 2010-2013 first wave of institutional investment were American Homes 4 Rent, Starwood Waypoint Residential Trust, Colony American Homes and Invitation Homes.

After the initial growth period, when buying loans in bulk was no longer an option, the industry's growth slowed. Investors found it time-consuming and expensive to invest large pools of capital in $200,000 chunks. Plus, the nature of the product creates hurdles that must be overcome. Single-family homes need a steady stream of repairs, and unlike apartment complexes, they're usually not next to each other, making maintenance less efficient.

The sector seemed destined to be an enduring but small niche until it was revived by COVID-19. The pandemic and work-from-home gave young families motivation to leave urban apartments and seek out housing with more rooms and yards for children. Yet many families who wanted to live in suburban housing did not have the savings or desire to be homeowners. Some detached-home renters lack the means to qualify for a mortgage; others want the flexibility to move.

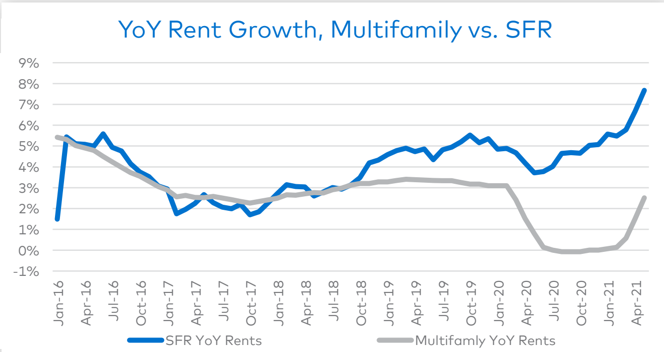
That created demand for single-family rentals at a time when large amounts of capital flowed to commercial real estate, particularly in multifamily. Acquisition yields for apartments, however, are in the 4% range in most markets. That led deep-pocketed investors who have capital and are looking for potential growth and/or high-yield segments to revisit single-family rentals. Among the institutions that have invested or allocated billions to the sector include BlackRock, Blackstone, Lennar, Brookfield and JP Morgan Asset Management. REITs that have significant holdings of SFRs include Invitation Homes, American Homes 4 Rent and Tricon Residential.

Merely having capital doesn't solve the issue of scale, though. Since loan foreclosures remain rare, assembling portfolios must be done either through one-off home acquisitions or through new construction. An increasing number of SFR owners are opting to build single-family portfolios to rent.

There are hurdles to build-to-rent, including finding enough land to support the construction of a large number of adjacent homes. SFR tracts tend to be in far-flung suburbs, since few cities and inner-ring suburbs have the vacant land necessary. The advantages of build-to-rent include the ease of managing properties close together, with the operator able to build to their own specifications and quality level. In addition, many renters prefer a new home and are willing to pay higher rent for it.

Regional, Market-Level Disparities

One of the main arguments for SFRs is performance, which has been very good in recent years. The review of the 65,000-plus properties in our database indicates that occupancy rates and rent growth have been robust for most of the past decade and rent growth has exceeded multifamily in recent years.



Source: Yardi Matrix

Since the beginning of 2016, the average SFR rent nationally has increased by 24.1% to $1,691, according to Matrix data. Unlike multifamily, which saw rents drop during the pandemic in some markets—particularly the urban submarkets in gateway metros—SFR rents accelerated over the past year. Through mid-year 2021, SFR rents were up 6.4% nationally (all data cited is Yardi Matrix). That's after rent growth of 5.3% in 2020, 5.2% in 2019, and 3.7% in 2018. Occupancy rates in our portfolio have been steady and were 94.3% at mid-year 2021. Rent growth over the last two years generally has been strongest in secondary and tertiary markets, where the most stock is situated.

Unlike other commercial property types, there is very little SFR stock in the Northeast and in primary metros, for several reasons. One is that the original institutional involvement was concentrated in areas where there were bulk foreclosure sales. That is easier to accomplish in some states than others, due to how the foreclosure process is operated and the fact that for economic reasons some metros saw a larger concentration of foreclosures during the GFC.

Another issue is the availability of land. Primary markets such as New York, Boston, Chicago and San Francisco have very few of the large plots of land needed to build complexes with dozens of single-family homes. SFR stock is concentrated in the Southwest, Midwest and Southeast. Metros such as Phoenix that have huge expanses of available land present much more of an opportunity for single-family rental communities.

The regional disparity is reflected in data on properties under construction. Of the 12,246 SFR units under construction in 50-plus unit communities, more than two-thirds (8,491) are in secondary markets and the rest (3,755) are in tertiary markets. No SFR communities are being built in gateway metros.

By region, the Southwest (4,896) and Southeast (3,978) have by far the most units under construction, trailed by the Midwest (1,716) and West (1,522). The number of units being built in the Northeast (134) is negligible. Developers with the most SFR build-to-rent communities under construction are American Homes 4 Rent (1,603), NexMetro Communities (1,336) and Redwood Living (1,067).

Phoenix has both the most existing SFR properties in 50-plus unit communities and the most such properties under construction. Phoenix has nearly 6,000 existing SFR communities and more than 2,500 under construction. Other metros with the most existing units in large communities are Columbus (4,300), the Inland Empire (2,500), Detroit (2,500) and Kansas City (2,200). Other metros with the most SFR communities under construction are Jacksonville (766), Charlotte (719), Houston (644) and Atlanta (544).

The largest owners in our database are Redwood Living (9,806 units), Inland Real Estate Group (1,579), NexMetro Communities (1,510) and Lewis Group (1,254). These are not the largest institutional owners of SFRs, but the largest that own contiguous homes in communities with 50-plus units in our database.

American Homes 4 Rent owns more than 55,000 single-family units, but the bulk of its existing portfolio encompasses homes acquired as standalone properties. AH4R represents the development of the industry, as the company's strategy has evolved to include a robust build-to-rent program. The REIT's growth strategy has changed to recognize that building is often a more efficient way to grow than buying pre-existing homes one at a time.

Units Under Construction by Market Size

	50+ Community Units U/C
National	13,187
Secondary	9,266
Tertiary	3,921
Gateway	0

Source: Yardi Matrix

Units Under Construction by Region

Region	50+ Community Units U/C
Southwest	5,062
Southeast	4,549
Midwest	1,716
West	1,666
Northeast	194

Source: Yardi Matrix

Units Under Construction by Metro

Market	50+ Community Units U/C
Phoenix	2,592
Houston	1,035
Jacksonville	766
Charlotte	719
Dallas	551
Atlanta	544
Charleston	475
Sacramento	422
Austin	374
Denver	337
Des Moines	334
Salt Lake City	292
NC Florida	283
San Antonio	277
Las Vegas	266

Source: Yardi Matrix

Units Under Construction by Builder

Owner	50+ Community Units U/C
American Homes 4 Rent	1,603
NexMetro	1,336
Redwood Living	1,067
D.R. Horton	705
Camillo Properties	644
Newport Pacific Land	507
Petrovich	422
Capstone Collegiate	283
Sands Companies	253
The Wolff Company	230
Brown Group	217
Harvard Investments	212
RangeWater	197
GTIS Partners	197
Moderne	185
Transcendent	184
Wright Homes	180
Edgewater Ventures	177
Tradition Companies	176
El Dorado Holdings	174

Source: Yardi Matrix

Yardi's Central Data Repository

The lack of market information and transparency is an impediment to SFR growth. There is no central repository of information, and the vast majority of properties are detached, making data collection difficult. Yardi Matrix is stepping into that breach with a new database of single-family rental communities that currently encompasses more than 730 communities with 96,000 units and continues to expand. To meet the criteria for our database, properties:

- Must be in complexes with 50 or more units;
- Must not share walls with other structures; or
- If they have shared walls, neighbors must not be above or below, and they must have a direct-access garage.

Our SFR database, which is likely the largest database of single-family rentals in the U.S., still represents a small percentage of the overall institutional SFR market, which encompasses roughly 1.5 million units. The data does provide a standard definition of what is and what isn't SFR; performance of fundamentals such as rent and occupancy; valuations and sales data; a compilation of new supply (what's in the pipeline and where); and a list of investors in the segment.

What Build-to-Suit Offers

The institutional SFR market developed in the wake of the Global Financial Crisis in order to take advantage of the foreclosure crisis. When vulture investors swooped in to buy undervalued home loans from banks, many in the market were skeptical that the segment had staying power. Doubters expected institutional investors to cash out when home values recovered. "Is SFR a new niche sector or merely a trade?" was a common question.

Top Owners, 50+ Unit Communities

Owner	50+ Unit Community Units
Redwood Living	9,806
Inland Real Estate	1,579
NexMetro	1,510
Lewis Group	1,254
A.R. Building	620
City of Marina	548
Carmel Partners	540
Ashley Companies	523
Christopher Todd	508
Embassy Group	504
Blank Property	496
DRK & Company	492
Horizon Development	490
Sentry Asset	486
M3 Multifamily	470
Connor Group	470
Beachwold Resi	470
Dermot Company	456
Duff, Charles B.	439
Fairfield Properties	432

Source: Yardi Matrix

Although some institutions did cash out, others stayed in, though growth slowed until the pandemic breathed new life into the segment. Now lifestyle and demographic trends denote continued strong demand for SFRs. Meanwhile, the pandemic produced a sharp rise in savings that left institutions flush with cash and looking for real estate to buy. That has benefited niche segments as traditional asset classes have become extremely rich.

The logic of the investment doesn't make SFRs a slam-dunk. Managing vast pools of small assets remains a tricky endeavor that requires a specialized expertise. Institutional owners of SFRs need more than capital and willingness to succeed. Also required is efficient maintenance, technology adequate to manage and market properties, and the continued cooperation of economic trends. Not to mention that the SFR market has yet to be tested over a long period of time.

Build-to-rent does offer a more stable environment in which to grow. Although much can still go wrong and space to build remains limited, there are advantages. It enables investors to control the product from start to finish, to create a "brand" as opposed to a random pool of assets, to concentrate a larger number of holdings in fewer locations, and possibly to improve liquidity by adding to the potential number of market participants. As such, build-to-rent is likely to flourish in the next economic cycle.

—Paul Fiorilla, Director of Research, and Casey Cobb, Senior Analyst

Appendix

Sales Volume by Metro

Metro	Total Dollar Volume ($MM) Since 2015
Phoenix	$762.9
West Palm Beach	$180.8
Austin	$141.9
Tucson	$115.3
Long Island	$111.8
Detroit	$109.7
Twin Cities	$105.5
Denver	$98.8
Tacoma	$98.3
Seattle	$82.0
Dallas	$74.8
Las Vegas	$64.3
Baltimore	$60.1
Tampa	$60.0
Kansas City	$57.0
Salt Lake City	$53.1
Houston	$51.4
Lexington	$43.6
San Antonio	$43.0
Columbus	$38.5

Source: Yardi Matrix

Stock, Rent Growth by Region

Region	Stock-50+ Unit Communities	YoY Rent Growth - May 2021
Midwest	20,933	6.7%
West	15,247	8.0%
Southwest	14,856	10.0%
Southeast	10,696	6.3%
Northeast	5,147	4.7%

Source: Yardi Matrix

Stock, Rent Growth by Market Size

Market Size	Stock-50+ Unit Communities	YoY Rent Growth - May 2021
National	66,879	7.8%
Seconday	35,715	8.1%
Tertiary	29,068	7.4%
Gateway	2,096	2.6%

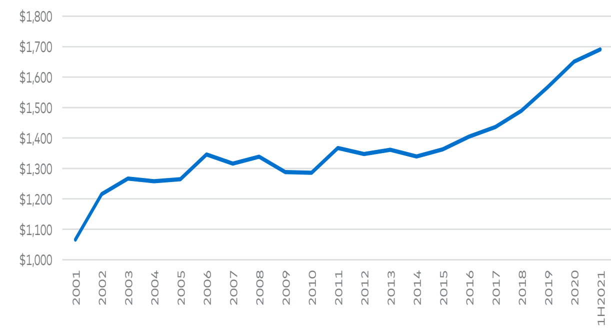
Source: Yardi Matrix

Stock, Rent Growth by Metro

Market	Stock-50+ Unit Communities	YoY Rent Growth - May 2021
Phoenix	6085	15.0%
Columbus	4309	6.7%
Inland Empire	2513	18.9%
Detroit	2499	6.7%
Kansas City	2232	5.2%
Dallas	1949	4.7%
Cleveland	1903	12.1%
Houston	1765	2.7%
Indianapolis	1654	5.9%
Central Valley	1633	11.1%
Twin Cities	1561	4.3%
Salt Lake City	1370	5.5%
Las Vegas	1292	12.3%
Tucson	1181	14.7%
Pittsburgh	1107	5.8%
Dayton	1096	1.0%
Toledo	1034	9.5%
Portland	980	2.6%
Rochester	968	7.5%
Lansing, MI	894	7.8%

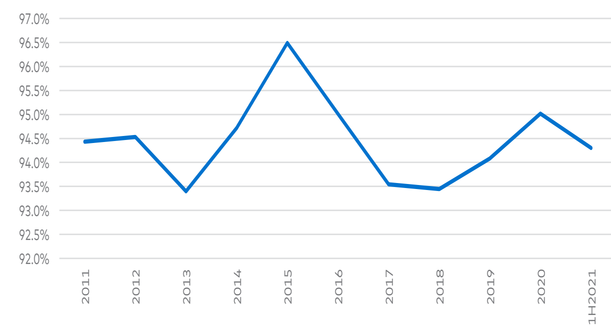
Source: Yardi Matrix

SFR National Rent Growth, 50+ Unit Communities



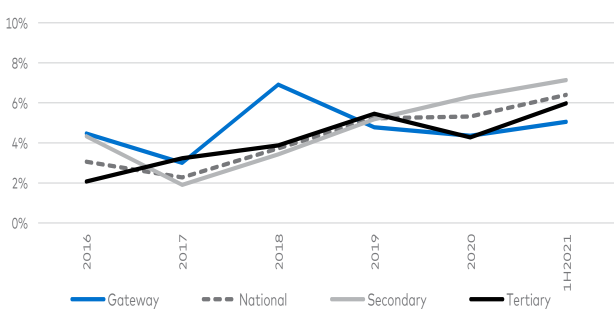
Source: Yardi Matrix

SFR National Occupancy, 50+ Unit Communities



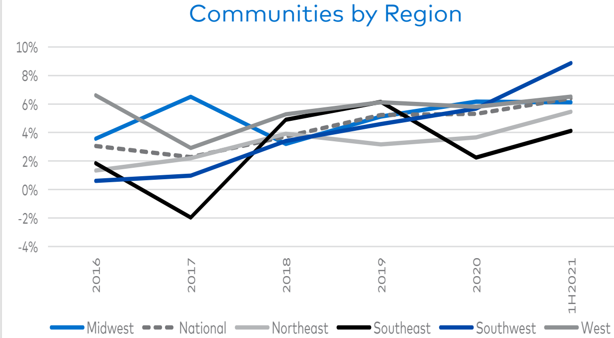
Source: Yardi Matrix

Avg. YoY Rent Growth, SFR 50+ Unit Communities by Market Size



Source: Yardi Matrix

Avg. YoY Rent Growth, SFR 50+ Unit Communities by Region



Source: Yardi Matrix

Completions by Market Size

Market Size	50+ Unit Community Unit Completions Since 2015
National	23,971
Secondary	14,070
Tertiary	9,838
Gateway	63

Source: Yardi Matrix

Completions by Region

Region	50+ Unit Community Unit Completions Since 2015
Midwest	8,788
Southwest	7,638
West	3,278
Southeast	3,224
Northeast	1,043

Source: Yardi Matrix

Completions by Metro

Market	50+ Unit Community Unit Completions Since 2015
Phoenix	5,026
Indianapolis	1,419
Detroit	1,371
Columbus	1,249
Lansing, MI	894
Dallas	806
Dayton	693
Salt Lake City	598
Cleveland	578
Inland Empire	524
Austin	497
Houston	484
Des Moines	448
Denver	418
Greenville	403
Fort Wayne	402
Charlotte	395
Kansas City	393
Cincinnati	367
San Antonio	332
Grand Rapids	323
Central Valley	310
Rochester	306
Tucson	301
Albany	294

Source: Yardi Matrix

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